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GOVERNOR



State of Vermont
OFFICE OF THE GOVERNOR
State of the State Address

Achieving Prosperity through Affordability
Rethink, Revitalize and Reform

Mr. President, Madam Speaker, Members of the General Assembly, my fellow Vermonters:

As 2008 opens, the hope of a new year – of a new beginning – unfolds before us, touching the horizon of a new generation. For centuries, our people have been held by a faith in tomorrow, by the glory of God’s gift: the promise of Vermont.

As public servants, we are stewards of this promise, a responsibility we bind with an oath, and why we have gathered in the people’s house today. I welcome you back to Montpelier and offer my sincere wish that we may work together with the shared duty of improving the lives of our fellow Vermonters.

We strive to share the virtues of our forbearers, those values of hard work, honesty, courage and sacrifice. There is no finer group of Vermonters who exemplify and embody those qualities than the men and women who defend our freedoms and protect our homes and neighborhoods. They are guardians of liberty, keepers of security and their uncommon sacrifice must never go unappreciated. Please join me in thanking the men and women of the Vermont National Guard, and soldiers, sailors, airmen and Marines who serve our nation both here and abroad – as well as Vermont’s first response community – our firefighters, police officers and emergency workers.

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In the 231 years since state government first met, we have faced many trials that have tested the mettle of Vermont values. Through natural disasters, national recessions, financial hardship and wars fought on American soil and foreign sands, we have emerged from each crucible with our will unbroken and our spirit strengthened. Our buoyant spirit is why, when we work together, guided by common purpose, Vermont works and works well.

But my chief concern is that Vermonters are working harder than ever to make ends meet. As we convene for this second half of the biennium, families in our state confront

issues of affordability—challenges that moms and dads and grandparents must grapple with day-to-day. With health care premiums increasing by double digits, fuel topping three dollars per gallon, and property taxes continuing a steady climb, families are feeling the squeeze. Compounding these challenges, homeownership remains out of reach for too many Vermonters. These are the principal barriers to prosperity and the fundamental issues that this General Assembly must confront and make progress on this year.

While we remain diligent and focused on our key priorities, we must not ignore other important issues like climate change – indeed we would do so at the peril of our cherished environment.

And with all challenges we face, we must keep our vision far-reaching, but our goals practical, achievable and affordable.

With support from the Legislature, we have made significant progress to improve the lives of our fellow Vermonters. We passed the largest jobs package in our state's history and streamlined our permit process. We helped a new generation realize the dream of higher education with college scholarships and invested millions in skills training for working men and women. And we are moving forward with the e-State initiative—a plan to make Vermont the first state with high-speed internet and cell phone coverage available everywhere within our borders by the end of 2010.

As a result of our steadfast focus on economic growth, in the last five years, we've created 12,000 new jobs and our unemployment rate remains well below the national average.

I was proud to work with many of you to pass the Health Care Affordability Act. These reforms are a national model and will help to contain costs and ensure coverage for those who previously could not afford it. They are an example of what we can accomplish when we put progress ahead of partisanship.

We've provided seniors the option of staying home as they age, through our first-in-the-nation Choices for Care program. Dorothy and I know firsthand the challenge of caring for aging parents and how important it is to her mother to have the option of remaining at home now that she is no longer able to care for herself. Every Vermonter deserves that choice.

We can be particularly proud of the fact that Vermont has the highest percentage of its children insured. Right now we're engaged in a fight to protect these children—and others across the country—from partisanship in Washington that threatens to undo what Vermont has done. Vermonters can be certain of this: I will continue to insist that Washington live up to its obligations to our children.

We've accomplished these successes—and many others—with steady financial leadership and by holding the line on taxes. Vermont is not a large state with deep pockets. We have managed our finances prudently. We have balanced expanding needs with limited resources and done so with compassion and fairness. For this vigilance, Vermont has earned the highest possible bond rating – the best among New England states.

Still, I remain mindful of the turbulence and uncertainty in the national economy and will watch closely any developments here at home that may impact Vermont's sound financial position.

This common sense approach has laid the secure foundation upon which we start building today. Indeed, it is the very reason I can report that the state of our State stands strong.

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Now, with one eye to the future, and one on the bottom line, we must strike the right balance of protecting key government services while making smart investments for the years ahead.

This will require that we be innovative, rethinking business as usual at every level, revitalizing what works well and reforming what must work better. We must seek efficiencies while strengthening services; stretch resources while protecting the most vulnerable; and treat precious taxpayer dollars as if we earned them ourselves.

Today, I lay out a series of proposals to achieve prosperity through affordability and to rethink, revitalize and reform the way our state approaches its most pressing challenges. By making health care, homeownership and the tax burden more affordable—and by making investments in job creation and our natural environment—our families and our state will prosper.

The cost of health care remains a barrier to prosperity and the peace of mind our families deserve.

We should begin by acknowledging the great progress we have made and build on it. There were over 35 different initiatives within the Health Care Affordability Act – all designed to improve access, and the quality of the care we receive.

We are off to a great beginning with the new Catamount Health Plans and premium assistance programs. In just three and a half months, more than 1700 previously uninsured Vermonters have health insurance and 2500 more are in the process of enrolling. Now, they can get the care they need, when they need it, and without fear of not being able to afford it.

Even with these achievements, we need to keep moving ahead with responsible reforms to reduce the cost of insurance for families and small businesses.

The platform for meaningful progress on health care is the report of the bipartisan Health Care Reform Commission. There are a number of areas where we agree and should act quickly.

We agree that we should eliminate the technicality allowing insurance companies to deny coverage for small businesses with fewer than 75% of employees under the employer's plan. This provision hurts both employers and employees who are stranded without insurance and puts additional strain on government-sponsored programs.

We agree we can provide coverage to more young adults by allowing parents to keep them on their family plans longer.

We agree a reinsurance mechanism can lower the cost of insurance. This is an idea I've advocated in the past. Any such proposal should neither require employers to drop their existing insurance nor establish a new and complex government program.

We agree we must enhance our focus on chronic conditions, including obesity--a preventable factor in increasing health care costs that must be addressed. With your support, we can place a prevention specialist in each region of our state and provide resources to encourage more community-based health initiatives.

We also agree that health information technology can improve quality and reduce costs. I ask that you support my plan to help primary care physicians acquire electronic health information systems, with the goal that every doctor in Vermont will be using them by the end of 2010.

With so much common ground among us, so many areas of agreement—and the financial security of so many families at stake—we must make more progress this year. I therefore request that this Legislature make affordable health care the top priority and send me a bill before Town Meeting.

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Vermonters have a right to feel safe in their homes and neighborhoods. While we live in one of the safest states in the country, we continue to confront criminals who tear at the fabric of our communities.

Working with victim advocates and others, we've formed alliances against domestic violence, drug abuse and sex crimes. It is my hope that this year we will strengthen the

special units that investigate these crimes and pass legislation that invests in domestic violence prevention.

Further, as we confront the scourge of substance abuse, I ask you to once again make prevention and enforcement the strategy of choice by investing in DETER—my Drug Education, Treatment, Enforcement and Rehabilitation program.

We must continue to send a clear message to drug pushers and violent criminals that they have no place in our homes – no place in our communities – no place anywhere in our state.

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Building safe and affordable communities across our state to meet the growing demand for housing is critical to the success and prosperity of all Vermonters.

Affordable homes are important economic assets for growing families. They provide peace of mind for those who want to live near their job and their children's school. And affordable homes are an important recruiting tool for employers.

The average cost of a home has nearly doubled in the last ten years. Today, there are about 30,000 Vermont households who have outgrown their current space, but are unable to move up because of price and availability. To address this pressing challenge, we must support policies that encourage the construction of homes working Vermonters can afford. New home construction has the added benefit of stimulating economic growth and creating jobs.

I propose a revitalized *New Neighborhoods* initiative that streamlines our regulatory systems, creates incentives for communities and complements the existing housing production network. Revised provisions of this initiative address concerns I heard from this Legislature last year.

One exciting component of this initiative is my Urban Homesteading proposal. Throughout Vermont's downtowns there are buildings with thriving street level commercial space and retail shops but vacant or underutilized space on the upper floors. My proposal creates tax incentives to encourage first-time homeowners to invest in these spaces—increasing the availability of affordable homes and spurring economic growth in our downtowns and village centers.

The demand for more affordable homes all across our state is real. We can no longer afford inaction – now is the time to put the dream of homeownership within reach of every family.

It is not only the cost of purchasing a home that Vermonters struggle with, but also the cost of owning a home.

Last year we enacted meaningful reforms to ease steep yearly increases in property tax bills by calling for voters to consider an alternative budget for school districts that propose spending increases beyond a certain level. This mechanism will help make our increasing investment in education sustainable.

While we wait for this commonsense cap on property tax increases to take effect, we must create a bridge to stabilize tax bills right away. That's why I propose we provide more immediate property tax relief – Vermont families need help today.

We can cut property taxes directly by \$25 million and invest another \$25 million in school modernization projects by utilizing the projected \$50 million of proceeds from leasing our state lottery. Not only will this proposal ease the financial strain on homeowners, it will help clear the backlog of school construction, giving our students 21st century learning environments in energy efficient buildings, which will save taxpayers money in the long run.

I recognize that my proposal to lease the state lottery is generating much discussion but the need for property tax relief is acute and taxpayers expect us to find ways to optimize state government and return those savings to them. I encourage you to keep an open mind, carefully weigh the advantages of this proposal and make your decision based on the pressing needs of property taxpayers.

Vermonters are always willing to pay their fair share for public safety, roads, education and programs for the disadvantaged, but – any way you study it – the tax burden is very high and people need relief. This is why I will continue to resist calls to raise the income tax, payroll tax, property transfer tax, home heating fuel tax, gas tax and other taxes.

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We must continuously rethink how best to achieve equity in our tax system, because unfair or excessive taxation threatens prosperity and stifles innovation.

In 2004, we closed a loophole in our corporate tax policy that benefited large out-of-state corporations to the competitive disadvantage of homegrown, Vermont-based employers. By closing this loophole we were able to reduce the tax burden for our employers. In 2005, our top rate was 5th highest in the nation. After lowering the rate, and reducing the burden by 10.5%, we're now ranked 17th in the nation—making Vermont a more attractive place to start and grow a business.

Today, I am proposing to close another tax loophole—one that penalizes working Vermonters.

Our current tax structure taxes earned income – that is, your hourly wage or salary – at a higher rate than it taxes unearned income.

What this means is that a working man or woman in Vermont making \$50,000 a year pays nearly 50 percent more tax than someone who does not work and simply lives off investment or trust fund capital gains income in the same amount.

Our state is one of only a few that has such an unfair penalty for doing an honest day's work. This is grossly unfair. We must close this loophole and eliminate this working tax penalty.

We all know that Vermont's income tax rates are among the highest in the nation. By making these changes, we can substantially lower tax rates for middle class working Vermonters. We will also lower our top rate – which is the highest in the country – to increase our competitive advantage when recruiting employers to start or expand businesses here.

In addition to lowering income tax rates, my proposal will hold harmless Vermonters 65 years and over, and protect middle-income investors by exempting their first \$2,500 of long term investment income.

These changes are substantive steps we can take this year to ease the tax pressure on middle-income Vermonters. This is an issue of fundamental fairness and I encourage this Legislature to join me in providing working Vermonters the tax relief they have earned.

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Over the last five years, we have made job creation one of our highest priorities. We recognized that growing a strong economy is not the domain of one person, one agency or one group; it is the product of many hands working together, building the infrastructure of success across many disciplines. Our initial efforts have been strong, but we must move forward.

To position Vermont for the next wave of environmentally friendly industry, we must continuously reassess and revitalize our economic development efforts. My comprehensive job creation strategy is the sum of many parts: creating a wireless telecommunications infrastructure, a focus on science and technology in the classroom and targeted incentives for small businesses – all with convergence toward our green economy.

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The pace of change is accelerating, and knowledge expanding, at a rate greater than at any other time in human history. The computer and the internet have brought us closer together and given us access to all of the world's information. Keeping up is now a race,

and access to the infrastructure of innovation is the difference between success and failure, progress and decline.

Here at home, deep in the Green Mountains, Vermont is ready for this challenge thanks to your willingness to embrace my e-State Initiative. Already, communities throughout Vermont are taking advantage of the changes we made.

In Cabot, residents now have cell service by attaching antennas to a silo—a step that also provides additional income to a working farm. In Bennington County, one company filled an important gap in their coverage by building a Vermont-scale windmill—also on a farm—and attaching their antennas below the turbine. And, thanks to the work of Lt. Governor Dubie, the Northeast Kingdom is the site of a pilot project that will provide a wireless network, with emergency back up by satellite.

These reforms are advancing us steadily toward our goal of a universal network of high-speed wireless phone and internet service that extends to every corner of our state.

To further inspire investments in technology, I'm proposing we invest a quarter-million dollars in two pilot projects—a partnership with Champlain College and the University of Vermont's Center for Emerging Technologies to provide grants to start-up businesses that are developing cutting edge software; and an e-communities grant program to enable more local internet content, discussion forums, wikis and blogs.

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There is no doubt that the future of our economy and our environment rests in the hands of technology and our ability to innovate with it—and innovation begins in the classroom.

Over the last several years, the Building Bright Futures initiative has worked to coordinate and support an integrated system of early childhood care, health and education that is fiscally sustainable. Investing in the healthy development of our youngest children and preparing them to arrive at school ready to learn and thrive not only helps students succeed but also reduces special education and human service costs over the long term.

I'm pleased to announce today that the Vermont Community Foundation and the Child Care Fund of Vermont have united with Building Bright Futures and will support this work with a generous investment.

In a speech to our nation's governors, Bill Gates observed, "In math and science, our 4th graders are among the top students in the world. By 8th grade, they're in the middle of the pack. By 12th grade, U.S. students are scoring near the bottom of all industrialized nations." He concluded, "In the international competition to have the biggest and best supply of knowledge workers, America is falling behind."

For Vermont's economy to produce quality, high-paying jobs in the future, we must be competitive with countries around the globe. Our ability to compete depends on our education system.

We must rethink how science, technology, engineering and mathematics are taught in our state. Vermont spends more than nearly any other state on a per capita basis for primary and secondary education; we have the resources to transform our system of education. As taxpayers and parents, we want to know that our children are receiving an education that is preparing them to prosper in the 21st Century.

That is why I have asked the State Board and Department of Education to help schools implement more innovative science, technology, engineering and mathematics curricula. By rethinking how our education resources are deployed, we can make this transformation. We know that our teachers are ready for the challenge; now let's build a classroom framework to support them.

To ensure that prosperity grows with each generation we must make a continued investment in our human capital. To empower the next generation of workers I propose we invest \$8 million—a 14 percent increase over last year's appropriation—in college scholarships and workforce training programs.

Well-trained, educated workers are the lifeblood of Vermont's economy. With strong work ethics and sharp minds, they attract companies that strive to expand and innovate. In fact, Vermonters produce nearly more patents per capita than any other state and – I hate to brag, but – we have been ranked the “Smartest State” two years running by a national research group.

All of this is no surprise. American history has been shaped by the vision and ingenuity of Vermont innovators like John Dewey, Thomas Davenport, Elisha Graves Otis and others whose discoveries improved the quality of life here and abroad. Drawing from the past, scientists are now turning to the 19th century discovery of Davenport—the electric motor, for use in hybrid vehicles—as one solution to the challenge of greenhouse gas emissions.

Now in Vermont, our future is being shaped by innovators producing cutting edge products and ideas that are having the same scope of change in today's economy as Dewey, Davenport and Otis had so many years ago. For example, scientists at Seldon Technologies in Windsor are manipulating carbon nanotube structures to create liquid purification systems that dramatically increase the supply of clean water in the poorest areas of the world.

These types of innovations in science and technology are key to making both our environment cleaner and our economy stronger.

Last year, we kicked off an effort to make Vermont a global center for environmental engineering. This year, I propose we build on that initiative by modifying the Vermont Employment Growth Incentive program to make environmental service companies eligible for significantly larger incentives to create jobs here.

In addition, I ask that the Legislature join me in urging the State retirement boards to designate a percentage of their funds for investment in the creation of green jobs. This could generate up to \$10 million in additional capital for investment in entrepreneurship and job creation.

But the single best job creation incentive we can offer small businesses and larger employers alike is to reduce their high tax burden. In all of my travels across Vermont, employers so often – and so unanimously – cite high taxes as a deterrent to more robust growth that I consider the tax reforms I’ve outlined today as the most basic and important job creation strategy this General Assembly can enact.

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Our job creation initiatives must necessarily dovetail with our efforts to keep our environment healthy. I created my Commission on Climate Change to build upon our collective experience as good stewards of the working landscape and lay the foundation for future prosperity.

The Commission’s recommendations—and those of its plenary group—are a blueprint for future sustainability and can help us chart our course. The creation of the Vermont Climate Collaborative--a partnership of state, academic, business and other organizations—has united the scientific and technological tools necessary in order to implement these recommendations in an effective, responsible and affordable way.

Vermont is a leader in protecting the environment. Seventy-eight percent of Vermont is working or protected forest and farmland. We lead the nation in energy-efficiency spending, and have the smallest carbon footprint in the nation. In fact, on a yearly basis, we absorb more carbon than we emit.

We have a long history of protecting our natural environment and respecting its cultural and economic value. That is why I am hopeful we will reach a responsible agreement on an all-fuels efficiency program that helps Vermonters make their homes more fuel efficient, lowers their heating costs and reduces greenhouse gas emissions.

Vermont is on the front line of new ideas, new technology and a new way of thinking about our land and its value, but there are some who have held this view for generations. Our farmers, foresters, hunters, anglers and trappers live close to the earth and have much to gain or lose from the work we do.

The tens of thousands of acres of working forests and farms is our “green bank” – a system where investments in good agricultural and forestry practices today will pay dividends to both our environment and economy in the future.

Farmers are continuing to adapt to a changing economy and, through close partnerships all across Vermont, we are seeing good ideas flourish.

Keeping our forests healthy and thriving is also an important tool in our fight against climate change. I have asked the Agency of Natural Resources to work with our forestry community to make available more state land for harvesting.

Through good management practices and partnerships with the sportsmen community, we are taking important steps to protect our wildlife from the diseases that have plagued other states. We are fighting invasive species like sea lamprey with regular and thorough lampricide treatments and we now have the healthiest deer and moose herds in decades.

We must continue to support these important traditional economic sectors through good land and wildlife management practices and a continued investment in the green bank so that the dividends are paid forward to generations ahead who will carry on the traditions of the Green Mountains.

We are a rural state – that means longer drives from home to work and places in between. As a result, vehicles account for nearly half of all carbon emissions in Vermont. The miles traveled aren’t the problem; the way we traverse them is.

As gas prices climb, many are taking a second look at fuel efficient cars and trucks and alternatives to single occupancy trips. That’s why I propose *Go Vermont*, a three-pronged approach that provides cost-effective transportation alternatives, promotes the development and availability of cleaner burning biofuels and pushes for increased vehicle emissions standards.

To help Vermonters find smart, affordable commuting alternatives, *Go Vermont* proposes an online database that will link commuters to carpools, as well as a new system for businesses looking to establish vanpools as a transportation perk for employees. In the last five years, we have increased our investment in public transit by 65% – from nearly \$13 million to more than \$21 million per year – and we plan to do more still.

Successful vanpool, rideshare and public transit programs require seamless integration between these options and a network of park-and-ride facilities. I propose to double the number of Vermont’s park-and-ride spaces over the next decade, and offer more money to communities for the municipal park and ride program.

The State already uses more than 150,000 gallons of biodiesel in its fleet and CCTA buses now run on biodiesel blends. Now, working with the Climate Collaborative, we are preparing for the next step: our lands being managed for new biofuel products – switch grasses, wood, and other vegetation that are renewable, sustainable sources of energy and economic growth. Advanced research is well underway at places like the University of Vermont and the state is poised to become a biofuels leader in New England.

Last week I announced that Vermont would join California in suing the Environmental Protection Agency to allow us – and more than a dozen other states – to impose stricter tailpipe emissions standards. We will not give up the fight on this issue -- we will prevail -- and we will see significant reductions in our greenhouse gas emissions.

While we look for ways to create a more innovative transportation system that will give Vermonters more choices when traveling, we must continue to invest in the *Road to Affordability* – my approach to transportation funding that puts the preservation of roads, bridges and culverts in balance with other priorities.

Overcoming our challenges and achieving results requires innovation—new thinking, new ideas—and a can-do attitude that inspires government to be more resourceful.

If Vermont is to continue to grow and prosper, we must reexamine the fundamentals of the services we provide and find ways to make improvements. We must bring a new energy to this calling and a pledge to protect those who need us most. And we must reach for the change that will bring a better life to those who still struggle.

Hard-working Vermonters remain at the heart of all we do and for all we strive. They are our strength. The values they carry to work each day are those that will guide us in this session, in our partnership for progress.

As we work to achieve prosperity through affordability, we must now rethink, revitalize and, where necessary, reform the work of government. We are ready for the challenge—this time of change requires it.

God bless each of you and the great State of Vermont.

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